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Annual Report

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Report Highlights:

South Africa's national beef herd is currently estimated at 14.1 million. Beef production in South Africa is projected to decrease slightly over the next two years because of the current economic situation and pressure on local meat demand. South Africa imported 30 percent less meat in 2007 than in 2006 and this trend is expected to continue in 2008. Importers struggle to compete with local producers because of the current import duty of 40 percent. Beef exports from South Africa are small; however South Africa showed a significant increase in the export of live animals in 2007, with most of the animals destined for Mozambique.

Includes PSD Changes: Yes
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Annual Report
Pretoria [SF1]
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Summary

The South African national beef herd is currently estimated at 14.1 million. The industry is still in a herd expansion phase which may continue for a couple of more years. Feed conditions are currently in a relatively good state.

Although 40 to 45 percent of South Africa's beef cattle are owned by emerging and subsistence farmers it is the large commercial farmers that supply the majority of the animals slaughtered in South Africa. The off take from this commercial herd amounts to about 29 percent. The off take from the emerging farmers is only about 13 percent. Total commercial slaughter amounts to almost 2.4 million head of cattle or to about 545,000 tons of meat. The emerging farmer sector's production is lower at about 135,000 tons.

South Africa imported 30 percent less meat in 2007 than in 2006 and this trend is expected to continue in 2008. Importers struggle to compete with local producers because of the current import duty of 40 percent. Beef exports from South Africa are small. South Africa, however, exported 57,610 live animals in 2007, 54,588 more than the 3,022 in 2006. Most of the animals were exported to Mozambique. This increase in live animal exports to Mozambique coincides with the agricultural development and investment currently happening in Mozambique.

Since the middle of last year producer prices have been stagnant. As a result, profit margins in the livestock industries have basically disappeared as increases in feed costs are not yet reflected in higher product prices. The outlook is that prices will be stagnant for the next few months and possibly slightly higher next year.

In the past few years the domestic demand for red meat has showed a steady increase mainly because of the strong economic growth in South Africa. However, the current domestic demand for red meat has softened because of the slowdown in economic growth, relatively high food inflation, increase in interest rates and high petrol prices.

US Dollar 1 = Rand 7.88 (09/09/2008)

Sources:

www.samic.co.za
www.rpo.co.za
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Cattle

Production

Beef and dairy production plays a significant role in the agricultural economy of South Africa. More than 14 percent of the total gross value of agriculture is attributable to cattle and calve slaughtering with another 6 percent attributable to milk production. Although the industry is insignificant as an earner of foreign exchange, South Africans spent almost R100 billion on meats and dairy annually. This spending represents more than 40 percent of total consumption expenditure on food.

The South African national beef herd is currently estimated at 14.1 million. The industry is still in a herd expansion phase which may continue for a couple of more years. South Africa primary livestock production depends mostly on the availability of fodder from natural grazing. As a result, the size of the herd correlates to rainfall. South Africa received very good summer rains last year and the first part of this year. Feed conditions are currently in a relatively good state, although winter veld fires can have a negative impact.

The South African national herd can be divided into seven categories of farming enterprises and ownership. This unique nature of the beef industry in South Africa complicates estimates and forecasts. In general no meaningful census, slaughter or production data is recorded.

The first category is the approximately 4,500 stud breeders who own about 500,000 head of cattle. The second category is the approximately 40,000 large commercial farmers who supply the majority of the animals slaughtered in South Africa. The off take from this commercial herd amounted to about 29 percent. Together with the 80,000 small commercial farmers (third category) the commercial beef sector owns about 6.67 million cattle. The fourth and fifth categories are the 240,000 emerging or small farmers and 3.0 million subsistence farmers which together own about 5.69 million cattle. About 40 to 45 percent of South Africa's beef cattle are owned by emerging and subsistence farmers. The off take from the small commercial and emerging farmers is only about 13 percent. The off take from the existence farmers is close to zero percent as cattle is mainly kept for religious activities. The sixth category, the commercial dairy industry, owns about 540,000 cows while the emerging and subsistence dairy farmers (seventh category) own about 700,000 dairy cows.

Total commercial slaughter amounted to almost 2.4 million head of cattle or to about 545,000 tons of meat. Average carcass weight is around 230 kg. The emerging farmer sector's production is lower at about 135,000 tons, the off take is less and the estimated carcass weights also lower at about 180 kg. Off take from the combined national herd amounted to about 22 percent with an average weight of 217 kg.

Many projects are currently implemented to educate emerging farmers and equip them for the competitive commercial market. However, they face many obstacles and challenges. First of all, they are unfamiliar with the method prices are determined at auctions and find it difficult to compete with commercial producers. They also have to be taught the principles of animal husbandry and profitability. Commercial farmers offer, on average, lots of 40 to 60 animals compared to emerging farmers' lots of two or three animals. Another hurdle is that many emerging farmers still farm on communal land where chiefs have the final say. It is extremely difficult to practice good animal husbandry without fences and where different farmers' animals graze together. In these situations farmers do not have control over their animals, disease control is nearly impossible and stock theft is an ever-present danger. Usually there is also a lack of infrastructure such as roads to transport animals to the market.

in these areas. A change in mindset is also needed, such as adapting modern production techniques, trading in weaners as opposed to older cattle and offering better- conditioned animals. Trading in weaners is unusual within the informal communal market, with mostly older cattle, specifically large oxen, being sold. The benefit of marketing weaners is that turnover is increased, management costs and risk are decreased and reduced stock numbers allow veld to recover.

The calving rate for the total cowherd (including heifers) in South Africa is taken as 40 percent. In the commercial herd it is about 55 percent and in the emerging herd only about 35 percent.

Table 1 indicates the estimated cattle numbers for each of the provinces in South Africa.

Table 1: Cattle number per province

Province	May 2006	May 2007	May 2008
' 1000			
Eastern Cape	3,064	3,182	3,225
Kwazulu-Natal	2,838	2,934	2,855
Free State	2,298	2,323	2,387
North West	1,805	1,770	1,787
Mpumalanga	1,337	1,411	1,480
Limpopo	1,166	1,026	1,036
Western Cape	513	532	577
Northern Cape	501	485	518
Gauteng	297	270	271
TOTAL	13,818	13,934	14,137

Source: National Department of Agriculture

Beef production in South Africa is projected to decrease slightly over the next two years. Consumers are under pressure because of higher interest rates and the higher prices of transport, energy, food and other household inputs and as a result demand less meat and milk products. Local milk buyers have already indicated that they will be offering less for milk. Beef and dairy farmers are also currently under pressure because of higher input costs and pressure on cash flow will result in lower production levels in the next few months. Dairy farmers are already removing cows that are only marginally productive.

Commercial suppliers to the market pay a R5 per head levy to SAMIC (South African Meat Industry Company). This money is used to carry out a number of generic industry projects that benefit red meat producers. These projects included a campaign to assure red meat consumers of meat safety, increase classification quality and monitoring of red meat imports. Levy funds have also been allocated for research and development in the beef and sheep production sectors, as well as for strengthening both local and international ties relevant to the industry. Funds are also being used to combat problems such as diseases, stock theft and problem animals in both the commercial and emergent red meat production sectors. The empowerment of emergent farmers along all stages of the value chain is also being supported by the statutory levy funds.

Feedlots

The marketing of cattle and meat in South Africa is free and very little government control remains, however, approximately 75 percent of all cattle produced in the commercial sector enters the feedlot industry. This is in the region of 1.45 million head per annum with a one

time standing total of about 420,000 head. The average feedlot carcass weight is about 230 kg which is a total feedlot production of about 333,500 tons.

The feedlot industry is striving to attain the EU standards for traceability, safety and health. Following the deregulation of the SA Meat Industry, a number of the larger feedlots have progressed vertically into not only the slaughtering of their own cattle but also into wholesale and even retail of their own branded quality beef products.

Trade

Live animals are imported from the neighbouring Namibia. Most of these animals are weaners destined for the feedlots. There was a one percent decline in the import of weaners from Namibia in 2007 compared to 2006 (from 172,790 in 2006 to 171,163 in 2007). This figure is, however, 18.9 percent lower than the export figure of 210,945 for the same period in 2005. The Namibian authorities are busy to curtail this export to South Africa in favour of local processing.

South Africa exported 57,610 live animals in 2007, 54,588 more than the 3,022 in 2006. Most of the animals, 47,818, were exported to Mozambique. In 2006 and 2005 South Africa only exported 480 and 598 animals respectively to Mozambique. This huge increase in live animal exports to Mozambique coincides with the agricultural development and investment currently happening in Mozambique.

Prices

Since the middle of last year, producer prices have been stagnant. As a result, profit margins in the livestock industries have basically disappeared, as increases in feed costs are not yet reflected in higher product prices. The outlook is that prices will mostly stagnate for the next few months and possibly slightly higher next year.

Table 2: Beef producer prices

	August 2008	February 2008	August 2007	February 2007
Class A (feedlot finished)	R21.10/kg (\$2.68/kg)	R21.00/kg (\$2.67/kg)	R20.25/kg (\$2.57/kg)	R17.30/kg (\$2.19/kg)
Class C (matured animals)	R19.20/kg (\$2.44/kg)	R17.00/kg (\$2.16/kg)	R17.80/kg (\$2.26/kg)	R14.80/kg (\$1.88/kg)
Live weaner	R12.50/kg (\$1.59/kg)	R12.60/kg (\$1.60/kg)	R12.40/kg (\$1.57/kg)	R11.30/kg (\$1.43/kg)

Animal Numbers, Cattle South Africa (1000 Head)	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Total Cattle Beg. Stks	13917	14200	13934	14187		14082			14195
Dairy Cows Beg. Stocks	1800	1800	1533	1810		1225			1222
Beef Cows Beg. Stocks	7500	7500	7524	7540		7886			7954
Production (Calf Crop)	3720	3720	3622	3750		3645			3681
Intra-EU Imports	0	0	0	0		0			0
Other Imports	140	140	171	140		120			100
Total Imports	140	140	171	140		120			100
Total Supply	17777	18060	17727	18077		17847			17976
Intra EU Exports	0	0	0	0		0			0
Other Exports	5	10	58	5		68			80
Total Exports	5	10	58	5		68			80
Cow Slaughter	1125	1125	1125	1300		1123			1132
Calf Slaughter	50	55	63	55		62			63
Other Slaughter	1910	1910	1939	1804		1934			1951
Total Slaughter	3085	3090	3127	3159		3119			3146
Loss	500	500	460	470		465			470
Ending Inventories	14187	14460	14082	14443		14195			14280
Total Distribution	17777	18060	17727	18077		17847			17976

Beef and Veal

Production

To calculate beef production a long-term model that has given good results in the past is being used. Official beef production and slaughter figures are used where possible but the traditional sector is not fully represented in the available data and has to be incorporated. Data from other sources are also included.

The following table contains the beef production estimates for the years 2007, 2008 and 2009:

Table 3: Beef production estimates

Beef production	2007	2008	2009
Commercial '000	8,190	8,309	8,407
Off take %	29.0	28.5	28.5
Slaughter '000	2,375	2,368	2,396
Cwe, kg	230	230	230
Production mt	545,085	543,448	549,902
Emerging '000	5,744	5,774	5,842
Off take %	13.1	13.0	13.0
Slaughter '000	752	751	760
Cwe, kg	180	180	180
Production mt	135,067	134,732	136,332
Total			
Cattle #000	13,934	14,082	14,195
Slaughter'000	3,128	3,119	3,156
CWE kg.	217	217	217
Production mt	680,153	678,180	686,234
Off take %	22.4	22.1	22.1

Trade

Meat imports are confusing as the World Trade Atlas includes the whole Southern African Customs Union excluding trade between its members. The general rate of duty on beef imports is 40 percent ad valorem or R2.40/kg except from SADC countries from where imports are free.

South Africa imported 29,328 tons (cwe) of meat in 2007. This is 30 percent less than the 42,426 tons imported in 2006. Another decrease in imports is expected for 2008. Local meat demand is decreasing slightly because of the current economic situation and import prices are currently higher than domestic prices. This has resulted in reduced imports of most meats. South Africa imported approximately 16,050 tons (cwe) of beef from Namibia (which excluded live animals) in 2007. This is six percent less than the approximately 17,013 tons in 2006. Although data for 2008 is not yet available another decrease in imports from Namibia is expected.

Beef exports from South Africa are small and totaled 2,285 tons (cwe) in 2007. The following tables shows imports and exports on a carcass weight equivalent (cwe) basis (x1.40).

Table 4: Beef imports to South Africa

Beef, MT. cwe	2006	2007	2008 (Jan to June)
Namibia	17,013	16,050	7,200
Paraguay	4,029	13,278	1,019
Uruguay	13,783	7,248	3,632
Argentina	2,578	980	658
Brazil	955	286	39
Australia	3,496	164	311
New Zealand	328	155	52
Total	42,426	29,328	8,219

Source: Namic, WTA

Table 5: Beef exports from South Africa

Beef, MT.	2006	2007	2008 (Jan to June)
United Kingdom	141	535	0
Switzerland	560	458	0
Mozambique	699	405	133
United Arab Emirates	144	214	162
Angola	218	213	118
Gabon	132	90	42
Mauritius	123	88	48
Total	2,275	2,285	837

Source: Namic, WTA

Consumption

The domestic demand for red meat has showed a steady increased mainly because of the strong economic growth in South Africa the past few years. Currently, the domestic demand for red meat is softer because of the slowdown in economic growth, relatively high food inflation, increase in interest rates and high petrol prices. However, as the economy recovers and interest rates decline, beef consumption is projected to grow at a moderate rate due to projected growth in personal disposable income of the South African population. To put the industry in perspective see Table 6 to compare the per capita consumption of the different meats in South Africa.

Table 6: Per capita consumption of meat in South Africa

Kg. per capita	Beef	Lamb	Pork	Red meat	Poultry
2000/01	12.3	3.5	2.6	18.9	20.3
2001/02	13.3	3.2	2.6	19.4	20.4
2002/03	14.0	3.2	3.0	20.4	21.5
2003/04	14.5	3.3	3.5	21.3	22.1
2004/05	15.5	3.2	3.6	22.3	23.5
2005/06	17.5	3.4	3.7	24.6	26.4
2006/07	18.9	3.8	3.6	26.3	27.1

Source: National Department of Agriculture

Meat, Beef and Veal South Africa (1000 MT CWE)	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Slaughter (Reference) (1000 HEAD)	3085	3090	3127	3159		3119			3146
Beginning Stocks	0	0	0	0		0			0
Production	670	656	680	680		678			684
Intra-EU Imports	0	0	0	0		0			0
Other Imports	24	35	29	24		16			15
Total Imports	24	35	29	24		16			15
Total Supply	694	691	709	704		694			699
Intra EU Exports	0	0	0	0		0			0
Other Exports	5	3	2	5		2			2
Total Exports	5	3	2	5		2			2
Human Dom. Consumption	689	688	707	699		692			697
Other Use, Losses	0	0	0	0					
Total Dom. Consumption	689	688	707	699		692			697
Ending Stocks	0	0	0	0					
Total Distribution	694	691	709	704		694			699